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Notes on Public Sector Reform and Performance Management

- International Themes
- Australia
- New Zealand
- The United Kingdom
- The United States

Top of Page

Notes on Public Sector Reform
and
Performance Management
Australia

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Table of Contents

Australia

1. Background
2. Timeline of Main Initiatives in Federal Government
3. Main Initiatives in Federal Government
   - 3.1. General Reforms
     - 3.1.1. The Reid Review
     - 3.1.2. 1983 White Paper: Reforming the Australian Public Service
     - 3.1.3. Public Service Reform Act 1984
     - 3.1.4. The Public Service Act Review Group
     - 3.1.5. Program and Policy Reviews
     - 3.1.6. Public Service Act 1999
     - 3.1.7. Government's Public Service Agenda
   - 3.2. Budget, Financial Management, and Related Reforms
     - 3.2.1. 1984 White Paper: Budget Reform
     - 3.2.2. Financial Management Improvement Program
     - 3.2.3. Program Management and Budgeting
     - 3.2.4. A New Legislative Framework for Financial Management and Accountability
   - 3.3. Improve Staff Performance
     - 3.3.1. Merit Protection Act 1984
     - 3.3.2. Middle Management Development Initiative
     - 3.3.3. Performance-based Pay System
     - 3.3.4. Senior Executive Leadership Capability Framework
4. Initiatives in the states
   - 4.1. New South Wales
   - 4.2. Queensland
   - 4.3. Western Australia
5. Key Elements
   - 5.1. Legislative Commitment
   - 5.2. Leadership
   - 5.3. Setting Objectives and Measuring Performance
   - 5.4. Performance-Based Budgeting
   - 5.5. Performance-Based Human Resource Management
   - 5.6. Performance Reporting and Reviewing
   - 5.7. Building Performance Culture
6. Reference

Australia[1]

1. Background

In the post-war period, Australia experienced an economic boom, and became one of the countries with the highest living standards. Australians thought of themselves as the "lucky country".[2] But from the mid-1970s on, the public sector relied significantly on deficit spending. By the 1980s, Australia's economy was less able to withstand the pressure from a more competitive global economy. The need to restructure the economy and to correct the country's fiscal imbalance exposed the public sector to greater budget pressures. The public sector was required to be more efficient and to reduce government expenditure. By 1983-1984 the federal government deficit amounted to 4.27 percent of the gross domestic product (GDP)[3], and efforts to reduce spending intensified.

By the early 1980s, it was clear that Australia's traditional administration was not adapting sufficiently to deal with the changing situation. The innovation in the 1970s, which introduced new administrative laws[4], did not offer solutions to broader problems. The Report of the Royal Commission on Government Administration, the last old style comprehensive review,[5] was not implemented, in part because the government changed. The failure of the 1970s experiences and processes indicated the need for a new and more effective reform package.

Even though there was no evidence of popular opinion demanding a specific program of public sector reforms, it was clear that the public was unwilling to continue putting up with poor service or bureaucratic obstructions. The failure of management in specific agencies was exposed through public inquiries. The weakness in the public service was seen to be a product of the system, which put too much emphasis on inputs and due process.[6] The generic managerialism ideas, such as Total Quality Management, benchmarking, re-engineering, and so on, also emerged among public administrators.

Reforms were also driven by the Labor party's concern with political control. By the time the Labor party came into power in 1983, there was a growing consensus that the public service elite had become too much of a "law unto themselves", and there was an

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[1] Quite limited information was found on public sector reforms and performance management in Australia through Internet-based research and in consultation with academic scholars. Limited by time and resources, this section may lack detailed information.

[2] Office of the Auditor General of Canada, *Reform in the Australian Public Service 1983-1996*, [http://www.oag-bvg.gc.ca/domino/other.nsf/html/aus.html], Ottawa: OAG, 1996.

[3] *Ibid.*

[4] The Administrative Laws that were introduced during the 1970s included *Administrative Appeals Tribunal Act 1975* (Cwlth) (hereafter 'AAT Act'), *Ombudsman Act 1976* (Cwlth), and the *Administrative Decisions (Judicial Review) Act 1977* (Cwlth) (hereafter 'ADJR Act').

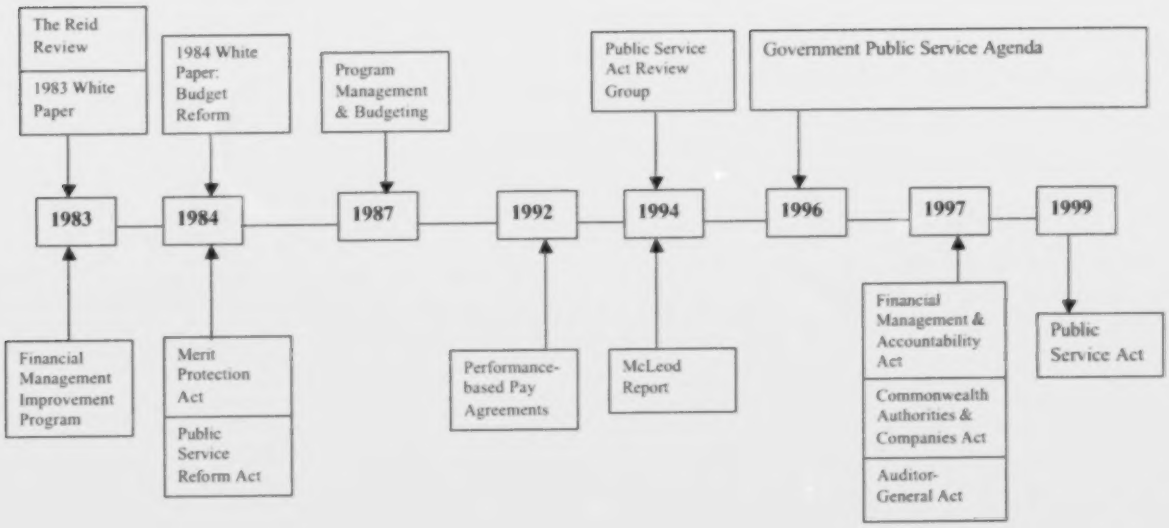
[5] John Halligan, *The Australia Civil Service*, [http://www.indiana.edu/~csrc/hallig3.html], Bloomington: Indiana University, 1997. Part 3: Representativeness.

[6] *Ibid.*

appetite for reassertion of political direction.[7] With this general sense in mind and with the introduction of managerialism ideas, a new stage of public service reforms emerged in the 1980s.

[7]Christopher Pollitt and Geert Bouckaert, *Public Management Reform: A Comparative Analysis*, Oxford: Oxford University Press, 2000, p. 201.

Timeline of Main Initiatives in Australia



2 Main Initiatives in the Federal Government[8]

2.1 General Reforms

2.1.1 The Reid Review

Facing pressure from inside and outside Australia, Prime Minister Fraser initiated a Review of Commonwealth Administration, (also known by its Chairman as the *Reid Review*). In its early 1983 report, the *Reid Review* recommended that changes be designed to increase public sector efficiency, devolve responsibility, make public servants more accountable for their actions, free up recruitment procedures for senior managers and increase ministerial control over departments. The *Reid Review* was seen as the first major reform initiative in the Australian public sector reforms.

2.1.2 1983 White Paper: Reforming the Australian Public Service

In 1983, the newly elected Hawke Labor government also put its efforts into reforming the public sector, issuing a White Paper entitled *Reforming the Australian Public Service*[9]. The 1983 White Paper focused on practices related to the appointment, removal, and other terms and conditions of employment of departmental secretaries, and similar practices pertaining to other public service executives. As expressed in the White Paper, the Labor government's objectives were to develop a public service that:

- was more responsive and accountable to ministers and Parliament;
- was more efficient and effective;
- gave all citizens an opportunity to compete on merit to join and advance within it, and provided greater opportunity for disadvantaged groups; and
- had a more streamlined and independent system for protecting the rights of staff.

2.1.3 Public Service Reform Act 1984

In June 1984, many of the measures outlined in the 1983 White Paper were legislated through the *Public Service Reform Act, 1984*[10]. They have been termed "the most wide-ranging reforms of the Australian public service since its creation at the time of federation".[11] The principal elements can be summarized as follows:

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[8] The framework of this section is based on the OAG study *Reform in the Australian Public Service 1983-1996* at http://www.oag-bvg.gc.ca/domino/other.nsf/html/aus.html.

[9] R.J.L. Hawke, *Reforming the Australian Public Service: A Statement of the Government's Intentions*, AGPS, Canberra, 1983.

[10] Australian Attorney-General's Department, *Public Service Reform Act 1984*, Act No. 63 [http://scaleplus.law.gov.au/cgi-bin/downloadtxt.pl?text&/scale/data/comact/5/2539], Canberra, 1984.

[11] P. Wilenski, "Administrative Reform-General Principles and the Australian Experience", *Public Administration*, Autumn 1986, p. 271-273.

- Legislative and administrative arrangements were to be adopted, such as the political appointment of ministerial advisors, to reinforce the control of ministers over departmental administration;
- More flexible procedures for the appointment, removal of departmental secretaries, and clarification of their relationship with ministers were to be introduced;
- A Senior Executive Service was to be established, with appointments through competitions open to the public as well as public servants, and public advertisement of vacancies;
- Amendments to the "objects", or purposes, were to be set out to include responsibility for equitable as well as efficient administration;
- A statutory requirement was to be made that departments develop, maintain and implement equal employment opportunity programs;
- Statutory requirements for industrial democracy were to be introduced - the development and implementation of action plans in each department and agency regarding organization of work, financial and human resource planning, occupational safety and health, and introduction of new technology;
- Measures were to be established to strengthen the merit principle, including establishment of the Merit Protection and Review Agency to handle grievances and appeals formerly heard by the Public Service Board; and
- Permanent part-time employment, with benefits, and upgrading of management improvement activities were to be introduced.

2.1.4 The Public Service Act Review Group

In response to the recommendation of the *Joint Committee of Public Accounts* that the legislation governing the public service be updated, the Labor government established the *Public Service Act Review Group*.

The Review Group's report, issued in December 1994 and known as the *McLeod Report*[12], was largely endorsed by the Labor government in August 1995. Among the significant recommendations accepted was one to remove from the Act the concept of "office", the consequence of which would be to encourage "a wider use of promotion to level arrangements... promotion would be to a classification (rather than to a specific position)"[13]. In a November 1995 report, the House of Representatives indicated that this recommendation would be implemented under the new *Public Sector Act*.

It was the intention of the Labor government that the introduction of a new Act would follow consultation with the public service unions, but this did not occur before the March 1996 election. The change in government at that time caused further delay through reconsideration of the review.

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[12] Australian Public Service Commission, *The McLeod report*, [http://www.apsc.gov.au/publications96/apsactreview.htm], Canberra, 1996.
[13] *Ibid.*

2.1.5 Program and Policy Reviews

Among more recent initiatives was a series of major program and policy reviews initiated in the 1993-94 Budget. Department of Finance documents portray these reviews as complementary to the Labor government's program evaluation strategy. The context of the reviews was the government's target of reducing the deficit to around one percent of GDP by 1996-97.

Reviews took account of expenditure trends across all portfolios, together with ministers' own reviews of their portfolio priorities. Most reviews were conducted by interdepartmental committees, including the line portfolio(s) and one or more of the central co-ordinating departments: Finance, Prime Minister and Cabinet, and Treasury.

Reviews focused on areas of rapid expenditure growth, and other areas where, for a variety of reasons, there was scope for program improvements. Many reviews emphasized value for money and "finding ways of doing things better for the same or reduced cost"[14]. Approaches to efficiency improvement included benchmarking, commercialization and cost recovery. Many reviews entailed the collection of new evaluation information; others involved the synthesis of a range of available evaluation and review findings.

The 1993/94 cycle of reviews, which comprised 48 individual reviews, related to aspects of programs that collectively covered over 50 percent of federal government expenditures.[15] About half of these reviews were completed by the time of the 1994-95 Budget, when several additional reviews were launched.

2.1.6 Public Service Act 1999

The *Public Service Act 1999*[16] was passed to replace the old legislative framework for the establishment and management of the Australian Public Service (APS). The Act intended to provide a legal framework for APS employment that achieved a balance between improved accountability and devolved responsibility so as to maximize the efficiency and effectiveness of the APS. The framework was to encourage managers to transform the present APS management culture by seeking maximum value for money rather than minimum risk-taking. This Act was also intended to improve the quality of people management in the APS, which, in turn, was expected to translate, among other things, into:

- more efficient, effective and ethical use of the Commonwealth's resources;
- responsiveness to Government in providing timely advice and implementing the Government's policies and programs; and
- fair, effective, impartial and courteous services for all Australians.

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[14] Office of Auditor General Canada, *Reform in the Australian Public Service 1983-1996*, [http://www.oag-bvg.gc.ca/domino/other.nsf/html/aus.html], Ottawa: OAG, 1996.

[15] *Ibid.*

[16] Australian Attorney-General's Department, *Public Service Act 1999*, Act No. 147, [http://scaleplus.law.gov.au/cgi-bin/download.pl?/scale/data/comact/10/6059], Canberra, 1999.

2.1.7 Government's Public Service Reform Agenda

The *Public Service Act 1999* was actually an element in the *Government's Public Service Reform Agenda*[17] in 1996, which had three parts:

- modernising the APS legislative framework- this was to keep a careful balance between devolved responsibility and improved accountability;
- simplifying APS awards and agreement-making processes; and
- transforming the APS management culture, which would be the responsibility of Agency Heads.

The agenda set out the directions for change. It indicated the legislative, industrial and administrative flexibility that the Government intended to provide to APS managers. The employment framework was to be transformed, providing the APS leadership with the freedoms that were necessary to pursue more innovative ways of seeking high performance.

The Agenda also identified a range of initiatives that might serve to improve public accountability for performance, increase competitiveness and enhance leadership. These initiatives included *Government Service Charters*, public performance agreements for Agency Heads and the SES, the replacement of out-of-date hierarchical controls with more contemporary team-based arrangements, greater devolved responsibility to the agency level, giving agencies flexibility to decide on their own systems for rewarding high performance, and streamlined administrative procedures. A strategic approach to the systematic management of risk was to be encouraged. Enhanced public accountability was to ensure that taxpayers' funds would not be used fraudulently or wastefully.

One other significant example of the Government's effort on public sector reform was *Centrelink*[18], the "one stop shop" providing an integrated range of services to customers. *Centrelink* was established with an emphasis on customer service. Counters and barriers were removed to provide an environment that was more alive to customers' needs.[19] *Centrelink* also developed a "balanced scorecard", which measured the agencies' success against the expectations of the customers, client departments, the community, agency staff, and the government. Performance at all levels of the organization was to be measured by local, area, and national targets, and performance improvement targets were to be negotiated with stakeholders—government and community—and staff. *Government Report Cards* were also used to inform Australians about key areas of public services, a key element of the current government.[20]

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[17] Peter Reith, *Towards a Best Practice Australian Public Service*, [http://www.apsc.gov.au/publications96/apsreformdiscussionpaper.htm], Canberra, 1996.
[18] More information on Centrelink is available at the homepage http://www.centrelink.gov.au/internet/internet.nsf/home/index.htm
[19] David Kemp, "Public Administration in the New Democratic State", *Australian Journal of Public Administration*, Vol. 57, No. 2, June 1998.
[20] Prime Minister of Australia Website, *Government Report Card*, [http://www.pm.gov.au/gov_report/index.htm], 2003.

Overall, the objective of the Australian Public Service is to improve the performance of the APS and, by so doing, provide public servants with a rewarding, quality-working environment in which they can pursue their careers. As the Australian Public Service Commissioner, Andrew Podger, stated,

> "The modern public sector environment will continue to give rise to challenges in meeting the high standards of performance and accountability expected of the public service. We will continue to face the challenges of seeking to strike the right balance between the devolved management and strengthened accountability that underpin the frameworks now operating in the APS."[21]

2.2 Budget, Financial Management, and Related Reforms

The theme of budgetary and financial management reforms represents the centrepiece of Australia's reform program. These reforms have been undertaken in a context shaped by two key factors: an effort to cut government spending in the face of a burgeoning deficit and a perceived need to modernize budgeting, financial management and related practices in order to improve decision-making and government effectiveness.

2.2.1 1984 White Paper: Budget Reform

Issued in April 1984, *Budget Reform* dealt with reforms already established or being implemented, as well as those being proposed. Its three major themes were: focussing and streamlining budget decision-making by government; improving the information base and processes for parliamentary and public scrutiny of government performance; and upgrading the financial management of programs. The government's stated objectives were to:

- develop better means of identifying and setting government priorities;
- focus attention on the goals and objectives of programs, in relation to the resources they use;
- develop and apply specific techniques aimed at improved performance and more efficient resource use (for example, devolution of financial management responsibilities and the introduction of a new system of program budgeting); and
- set up machinery to ensure that the effectiveness and efficiency of programs were reviewed regularly, and that such reviews were used in setting budget priorities.

Both the expenditure reductions and the financial and budgetary reforms were facilitated by a revamped Cabinet committee system. In particular, the Expenditure Review Committee of Cabinet, established in 1983 and chaired by the Prime Minister,

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[21] Andrew Podger, *The Emerging Framework of Australian Government Administration: Efficient, Agile and Accountable*, http://www.apsc.gov.au/media/podger110902.htm Australian Public Service Commission, 2002.

assumed a pivotal role in resource allocation, becoming the "single most important mechanism for co-ordinating and implementing the government's policy agenda".[22]

One of the themes of the White Paper *Budget Reform* was the need for improvement in the information base and processes for parliamentary and public scrutiny. A set of documents known as *Portfolio Budget Measures Statements*, containing an overview of each portfolio's objectives, program structure and resources along with a discussion of budget measures, was issued with the budget. Agency annual reports, redesigned to focus on essential information for Parliament to "make a fully informed judgement as to the effectiveness of the agency in meeting its program objectives"[23] were issued several months after the statements. These budget statements and annual reports have become the main accountability vehicles by which Ministers reported to Parliament and the public on the effectiveness of the programs for which they are individually responsible.

2.2.2 Financial Management Improvement Program

The *Financial Management Improvement Program (FMIP)*[24] was initiated by central agencies shortly after the 1983 election of the Labor government. It was an umbrella under which many of the resource management initiatives were developed and promoted. What is most important to note was the belief that there was substantial scope for improvement in the management of public sector resources and the delivery of government programs. The reforms were built upon each other and were seen as an integrated whole.

Those responsible for FMIP started with a diagnostic study, which examined the extent of financial management problems and led to a strategy for the implementation of new systems. These systems were based on the need for long-term, service-wide improvements aimed at creating a public service culture focussed on "managing for results". An important theme of FMIP was that financial management systems should be driven by clearly stated, publicly disclosed objectives, defined at the level of programs. This was seen as requiring fundamental changes such as relating program costs to evaluated outputs and outcomes, as opposed to a simple recording and control of inputs. FMIP also aimed to remove unnecessary constraints and to "let the managers manage."

Three fundamental strategies have underlined the FMIP:

- adapting budget and regulatory processes to reduce the need for central controls and to encourage efficiency through effective departmental management practices;
- introducing techniques and systems to focus departmental and agency managers on results; and
- changing administrative procedures and practices to motivate better management and raise awareness of resource costs.

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[22] Cited in *Reform in the Australian Public Service 1983-1996*, http://www.oag-bvg.gc.ca/domino/other.nsf/html/aus.html]. Ottawa: OAG, 1996.

[23] *Ibid.*

[24] Australian Public Service Board and Department of Finance, *Financial Management Improvement Program-Diagnostic Study*, Canberra, 1984.

The FMIP became the subject of several reviews and served to guide other reform efforts.

2.2.3 Program Management and Budgeting

Program Budgeting, which became *Program Management and Budgeting (PMB)* after 1987, was intended not only to contribute to improved parliamentary and public scrutiny, but to make staff feel responsible for the results of the programs they were administering.[25]

The key elements of this information framework were the establishment of program structures in agencies, clearer statements of agency and program objectives (strategic and outcome-oriented), and the determination of appropriate performance indicators.

Under PMB, expenditures were classified on the basis of a hierarchy of programs, subprograms and activities, each related to purposes and objectives (as opposed to the line-item budgeting system previously in use). Management reporting systems to monitor and report on program achievement were based on this program structure. As well, the program format enhanced the alignment of the annual parliamentary appropriations with program management. Under PMB, performance information was seen as essential.

Accountability was also enhanced through the disclosure of performance objectives *before the fact* in spending estimates, along with after-the-fact disclosure of results in departmental annual reports.

2.2.4 A New Legislative Framework for Financial Management and Accountability

In 1994, the Labor government brought forward three legislative proposals bearing on the financial management and control framework for the public sector, to replace the *Audit Act (1901)*. These were: the *Financial Management and Accountability Bill*; the *Commonwealth Authorities and Companies Bill*; and the *Auditor-General Bill*. These bills were finally passed in 1997, providing a new legislative framework for financial management and accountability.

The intent behind the *Financial Management and Accountability Act (FMA)*[26] was to modernize the legislative base for financial administration. It did not result in major changes in existing financial management practices, but rather brought the underlying legislation up to date to reflect the reforms instituted to that time.

The FMA incorporated the *Audit Act's* financial control principles, simplifying and clarifying them where possible, and applying them "in ways that support...reforms in public sector financial management." Improved accountability within government was expected. The FMA required chief executives to manage resources in an efficient,

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[25] Office of Auditor General Canada, *Reform in the Australian Public Service 1983-1996*, [http://www.oag-bvg.gc.ca/domino/other.nsf/html/aus.html]. Ottawa: OAG, 1996.

[26] Attorney-General Australia, *Financial Management and Accountability Act 1997*, Act No. 154, /http://scaleplus.law.gov.au/html/pasteact/2/3068/pdf/FinManAcc97.pdf]. Canberra, 1997.

effective and ethical manner, prepare fraud control plans, and establish high-level audit committees within their agencies. Better external accountability (from government to Parliament) was expected to flow from the restructuring of fund accounting arrangements by creating two purpose-related funds: a commercial activities fund and a reserved fund.

The *Commonwealth Authorities and Companies Act*[27] aimed to implement a standard framework for reporting, auditing and ethical requirements for directors of federal government statutory authorities and Government Business Enterprises. It would have supplemented obligations in corporate law respecting the accountability of those directors to ministers and Parliament.

The *Auditor-General Act*[28] was intended to enhance the Auditor-General's effectiveness, scope and independence from government. The Act defined the powers and functions of the Audit Office to support its functional independence from government through parliamentary involvement in the appointment of the Auditor-General, by giving the Auditor General the right to report to Parliament on any matter, and by clarifying and strengthening his mandate.

2.3 Improving Staff Performance

2.3.1 Merit Protection Act 1984

A main focus of human resource management reforms during this period was to improve staff performance, based on the recognition that getting the most out of people was crucial to improving public sector performance. In 1984, the *Merit Protection (Australian Government Employees) Act 1984*[29] was passed, and the Merit Protection Review Agency was created. The Agent was to ensure that relations between an authority and its employees was established and ensure that actions taken and decisions made were fair and equitable.

2.3.2 Middle Management Development Initiative

Another important example was the *Middle Management Development Initiative* announced in 1989 and begun in July 1990, which linked productivity, remuneration, and increased training. The initiative focused on those managers with substantial people management responsibilities and thus, to a significant extent, on regional offices. Departments were required to establish plans for middle management development as a

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[27] Australian Attorney-General's Department, Commonwealth Authorities and Companies Act, Act No. 153, [http://scaleplus.law.gov.au/cgi-bin/download.pl?/scale/data/comact/9/5719], Canberra, 1997.
[28] Australian Attorney-General's Department, *Auditor-General Act*, Act No. 151, [http://scaleplus.law.gov.au/cgi-bin/download.pl?/scale/data/comact/9/5717], Canberra, 1997.
[29] Australian Attorney-General's Department, *Merit Protection (Australian Government Employees) Act 1984*, Act No. 65, [http://scaleplus.law.gov.au/cgi-bin/downloadtxt.pl?text&/scale/data/comact/5/2541], Canberra, 1984.

precondition for funding. An important element of the program was the development of a management course to provide training in people management and other aspects of the changing responsibilities of managers.

It was recognized that strategic management of people and their performance required the development of a contemporary conceptual framework to identify the fundamental links between the various elements that comprised human resource management. The *Public Service Commission*[30] developed and published such a framework in July 1992 (updated in 1995).[31] Without being prescriptive, it put forward its framework to assist managers and reiterate the importance of integrating human resource management into normal management decision-making. The framework described in some detail key sectors of human resource management, including human resource planning, staffing practices, working conditions, performance management, human resource development, and staff relations.

The *Task Force on Management Improvement Evaluation 1993* provided a perspective on these initiatives. Human resource management was viewed by the staff as the reform area that had the greatest positive impact on the quality of their work, and was the one that also should be given the greatest priority.[32]

2.3.3 Performance-based Pay System

The rationale behind the performance-based pay schemes was that individual public servants would be motivated to work harder where their pay was linked to performance.[33] Negotiations regarding this issued had been ongoing ever since the 1980s. A performance-based pay system was eventually included in the APS service-wide bargaining agreement between the federal Labour Government and public trade unions in December 1992 (referred to as *Improving Productivity, Jobs and Pay in the Australian Public Service 1992-1994*). The performance-based pay system in APS was underpinned by performance appraisals, which aimed to link individual performance to corporate goals, improve communication between senior officers and their superiors, and identify the senior officers' training needs. The process by which senior officers was appraised were also intended to improve the level of feedback provided to them regarding their performance.

2.3.4 Senior Executive Leadership Capability Framework

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[30] More information about Australian Public Service Commission is available at the Commission's homepage http://www.apsc.gov.au/index.html.

[31] Australian Public Service Commission, *A Human Resource Framework for the Australian Public Service*, [http://www.apsc.gov.au/publications96/hrmframework6.htm], Canberra, 1996.

[32] Office of Auditor General Canada, *Reform in the Australian Public Service 1983-1996*, [http://www.oag-bvg.gc.ca/domino/other.nsf/html/aus.html], Ottawa: OAG, 1996.

[33] Michael O'Donnell, "Creating a Performance Culture? Performance-based Pay in the Australia Public Service", *Australian Journal of Public Administration*, Vol. 57, No. 2, June 1998, pp.28-39.

In 1999 a *Senior Executive Leadership Capability Framework*[34] was established and became the core criteria for Senior Executive Service (SES) selections from September 1999 on. The priorities include: shaping strategic thinking, achieving results, cultivating productive working relationships, exemplifying personal drive and integrity, and communicating with influence. The framework provided the basis for the design of a Career Development Assessment Centre, which was piloted in December 1999. Since then, a total of 16 Centres have been run. The Centres focus on the identification of specific developmental needs of high potential executive level staff, and incorporate suggestions for addressing those needs with development plans.

3 Initiatives in the States

3.1 New South Wales

Major reforms of the NSW public sector commenced in the 1980s and were built on five core principles[35]:

- Setting clear and consistent objectives and standards;
- Giving managers increased operational responsibility and autonomy;
- Holding agencies to account by objective performance evaluation;
- Giving managers and their agencies the incentive to perform better; and
- Removing privileges or handicaps to put government agencies on a comparable footing to their private sector counterparts.

In 1984, the New South Wales Government introduced the *Annual Reports (Statutory Bodies) Act*[36], and in 1985 the *Annual Reports (Departments) Act*[37]. The Head of a department or statutory body was requested to prepare a report of the department within 4 months of the financial year end. The report was to include the financial statements, the opinion of the auditor, and the response of the department or the statutory body to the opinion. The introduction of these two Acts made annual agency performance reporting mandatory.

In fiscal year 1985/86, Program Budgeting was introduced by the NSW Treasury to augment the previous emphasis on inputs by reporting key outputs and outcomes in NSW *Budget Papers*. The NSW Treasury also introduced an annual report on the Performance of NSW Government Businesses in the late 1980s.[38] Accrual-based reporting of

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[34] Public Service Management and Protection Commission, *Senior Executive Leadership Capability Framework*, http://www.psmpc.gov.au/media/ministerspeech19may.htm 19 May 1999.

[35] John Pierce, *Efficiency Progress in the New South Wales Government*, [http://www.treasury.nsw.gov.au/pubs/trp97_8/eff_prog.htm#five_two_budget], NSW Treasury, 1997.

[36] NSW Parliamentary Counsel's Office, *Annual Reports (Statutory Bodies) Act 1984 No 87*, [http://www.legislation.nsw.gov.au/maintop/scanact/inforce/NONE/0], Parliamentary Counsel's Office, 1984.

[37] NSW Parliamentary Counsel's Office, *Annual Reports (Departments) Act 1984 No 156*, [http://www.legislation.nsw.gov.au/maintop/scanact/inforce/NONE/0], Parliamentary Counsel's Office, 1985.

[38] NSW Council on the Cost and Quality of Government, Overview of NSW Government Services 1995-2000, [http://www.ccqg.nsw.gov.au/performance_reports/], NSW, 2000.

government expenditure and revenue was introduced in the fiscal year of 1990/91 to reflect real time use of government resources more accurately.

In 1995, NSW Parliament established the *Public Bodies Review Committee (PBRC)*[39]. The Committee examined annual reports of all public bodies including the adequacy and accuracy of all financial and operational information, and on any matters arising from the annual report concerning the efficient and effective achievement of the agency's objectives.

Following an agreement between heads of government in 1993, major NSW Government agencies in the policy areas of Health, Education, Law, Order and Public Safety, Social and Community Services, and Housing have collaborated with other states and territories to develop and publish nationally standardised indicators of effectiveness and efficiency in key service areas. These indicators were published annually in the *Report on Government Services* produced for the Council of Australian Governments by the Steering Committee for Commonwealth/State Service Provision. The reports included many of the interstate comparisons used in the *Report on Government Services*.

As part of a financial management framework for the general government sector, the *Service and Resource Allocation Agreements (SRAAs)*[40], introduced by the NSW Treasury, was launched in 2000. *Service and Resource Allocation Agreements* were "outcomes-focused" funding and performance agreements, developed on an agency-by-agency basis and signed by the agency's CEO and Secretary of Treasury, and by the relevant Minister and the Treasurer. The SRAAs set out output and outcome targets for achieving value for money for individual general government sector agencies, and would result in improved performance reporting in Budget Papers and annual reports.

3.2 Queensland

No significant reform initiative was conducted in the Queensland public service until the *Savage Committee Report* in 1987[41], which produced 90 reform recommendations including the devolution of departmental responsibility away from central control.

More dramatic reforms of the public sector occurred with the election of the Goss Labor Government in 1989. The original 27 departments were reduced to 18. A *Public Sector Management Commission (PSMC)* was established in 1990 as a reforming agency under the *Public Sector Management Commission Act 1990*[42]. The Commission conducted wide-ranging departmental reviews, established a *Senior Executive Service*,

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[39] NSW Parliament, Public Bodies Review Committee, [http://www.parliament.nsw.gov.au/prod/parlment/Committee.nsf/fa9f673838aee9b04a2567e600294777/c6d70cbc7c8a13334a2564ca00182fcf?OpenDocument].

[40] NSW Treasury, *Service and Resource Allocation Agreement*, [http://www.treasury.nsw.gov.au/indexes/pubs_by_pol.htm], NSW, 20000.

[41] Queensland Parliament, *Fact File—Queensland Public Sector*, [http://www.parliament.qld.gov.au/Education/ForSchools/pdf%20files/Others%202002/Queensalnd's%20Public%20Sector.pdf], Queensland, 2003.

[42] Queensland Parliament, *Public Sector Management Commission Act 1990*, [http://www.legislation.qld.gov.au/s97js.vts], Queensland, 1990

created a number of public sector standards, introduced equal employment opportunity policies and placed a greater emphasis on training within the public sector. As well, an Office of Cabinet was created, as part of the Premier's Department, to assist in the coordination of policies and programs emanating from all government departments and agencies.

Queensland once lagged well behind other Australian jurisdictions in administrative law reform. However, in the mid-1990s, the situation changed. In 1994, the *Public Sector Ethics Act*[43] was passed, with the aim of establishing a more ethical public service.[44] The Act stated explicitly a set of professional expectations or values to be socialized in the public sector: respect for the law and the system of government; for integrity and diligence; and for economy and efficiency. One perspective of the ethic reform was to improve public sector performance toward efficiency and effectiveness.

In 1996, *the Public Service Act*[45] was passed, replacing *Public Sector Management Commission* with an *Office of the Public Service* (OPS)[46]. A key objective of the Act was to establish the public service as "an apolitical entity responsive to Government need". Services were to be provided in "a professional and non-partisan way". The Act also set out the principles of public service management and employment. Management was to be directed to the provision of "effective and efficient services to the community and Government", implementing government policies, maintaining impartiality in advising Government, managing resources in a fully accountable manner, and ensuring the ongoing development of public service employees. The Act also placed considerable importance on the role of the Premier in the management of the Queensland Public Service.[47] OPS was given responsibility for employment, training, the Senior Executive Service, and policy advice on matters pertinent to the Queensland public service.

The Financial Sector Reform Acts[48], passed in 1999, amended the existing financial management acts and regulations with the aim of improving financial management in Queensland.

The Queensland Government also adopted the *Managing for Outcomes Model* (MFO)[49]. The aim was to ensure that the social, economic and environmental outcomes

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[43] Queensland Parliament, *Public Sector Ethics Act 1994*, [http://www.legislation.qld.gov.au/s97is.vts], Queensland, 1994.
[44] Noel Preston, *Public Sector Ethics in Queensland Since Fitzgerald*, [http://www.archivists.org.au/events/conf99/preston.htm], Australia Society of Archivists, 1999.
[45] Queensland Parliament, *Public Service Act 1996*, [http://www.legislation.qld.gov.au/s97is.vts], Queensland, 1996.
[46] More information about Office of Public Service of Queensland is available at http://www.opsme.qld.gov.au/about/legfunc.htm
[47] Max Spry, Public Sector Reform in Queensland: the Public Service Act 1996, [http://www.aph.gov.au/library/pus/rn/1996-97/97rn39.htm], Parliament of Australia, 1997.
[48] Queensland Parliament, *Financial Sector Reform Act 1999*, [http://www.legislation.qld.gov.au/LEGISLTN/CURRENT/F/FinSecRefQA99_001.pdf], Queensland, 1999.
[49] Queensland Treasury, *Managing for Outcomes*, [http://www.treasury.qld.gov.au/subsites/fmb/tier2/mfo.htm], Queensland.

for Queensland communities were optimised through the efficient and effective management of available government resources, strategic alliances with industry and engagement with communities. The framework emphasised the importance of a focussed effort across the public sector towards achieving the Government's priorities, ensuring resources were being directed to areas of greatest need and benefit.

MFO applied to all agencies within the General Government sector including departments and statutory bodies funded from the Budget. Agencies were required to budget, monitor and report to Government on a regular basis on the efficiency and effectiveness of services delivered. The Chief Executives MFO Advisory Committee was established to facilitate an inclusive whole-of-Government approach to developments and promote agency ownership of the process. The Committee was supported by a Reference Group comprising senior Departmental representatives. Strategic Planners and the Directors of Finance groups were also closely involved.

The Queensland local government also developed a new framework for internal and external reporting, following the commissioning of a report by the Local Government Association of Queensland (LGAO).[50] The Report, *Best Practice Simplified Internal and External Reporting for Local Governments in Queensland*, focused on improving the quality of internal management reports to councilors and senior management and on making external financial statements easier to understand.

3.3 Western Australia

As required by the *Financial Administration and Audit Act 1985*, Annual Reports were produced by most agencies and departments in Western Australia. The Annual reports were to include detailed information about how funds were managed and spent, and about the general efficiency and effectiveness of agency operations, as reflected in the performance indicators, during the financial year. These reports were to also include any *ministerial directions* issued to management. The Reports were independently reviewed and assessed by the Auditor General. Annual reports were to be provided to the responsible Minister by the end of August each year and were then tabled in Parliament. At this point they become public documents and represent one way an agency accounts directly to the community.[51]

In 1989, the *Burt Commission* examined specific issues regarding the accountability of certain Western Australian public sector agencies. In doing so, the Commission drew several conclusions about accountability, which had general application across the public sector. In particular, it indicated that accountability required that government agencies be subject to the control of a Minister of the Crown. In addition, every agency was to be ready and able to account (through its Minister) to Parliament, for its actions, decisions,

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[50] CPA Australia, *Queensland Report Explores Local Government Reporting Improvements*, [http://www/cpaaustralia.com.au]. CPA, 20002.

[51] WA Public Sector Management, *Accountability in the Western Australian Public Sector*, [http://www.dpc.wa.gov.au/psmd/pubs/psrd/governance/accountb.pdf]. WA, 1998.

and the way in which it had exercised the authority vested in it and managed the resources entrusted to it.[52]

In 1993, an Independent Commission (known as the *McCarrey Commission)* was established to review public sector finances. The Commission also touched on broader issues of public sector management. It suggested that the previous system of public sector management needed to be "swept away" and replaced by a framework that was responsive, flexible, accountable and, above all, efficient.[53] The report also recommended that the public sector be exposed to more competition in the provision of services.[54]

Rather than amend the existing *Public Service Act*, new legislation was introduced in Western Australia in 1994: the *Public Sector Management Act*. The major contribution of this change was the Act's enshrinement of general principles to be followed by all parts of the public sector in regard to public administration and management, human resource management, and official conduct.[55]

A cornerstone of the new Act was that the chief executive officers and boards of management were to be empowered to manage their organizations, subject to appropriate accountability arrangements, which included the intended achievements of the agency for the coming financial year in line with agreed outcomes required by Government.[56] The other key aspect of the Act was its provision in regard to "ministerial officers", including those appointed from outside the public sector to assist political office-holders. The *Public Sector Management Act 1994* was to be seen as the second phase in establishing a broad-based legislative framework for public administration and human resource management in Western Australia.[57]

Output Based Management (OBM), commenced in 1996, was seen as one of the biggest reforms impacting the public sector of Western Australia.[58] Budgets were presented on the basis of desired outcomes and the outputs required to achieve them, and comprehensive output measures and other indicators were developed to measure agency performance. OBM provided benefits to Parliament, government, the community, and agencies, by improved specification of: Government desired outcomes; the outputs to be provided by agencies; the full accrual cost of agreed outputs; and performance of agencies in the delivery of agreed outputs.

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[52] *Ibid*.
[53] WA Public Sector Management, *Public Sector Management Act Review Report*, [http://www.dpc.wa.gov.au/psmd/pubs/exec/machgovt/kelly/summary.pdf], WA, 1997. Intorduction.
[54] Janis Bailey, Bob Horstman, Kristin Berger, and Ray Fells, "Public Sector Labour Relations in Western Australia—An Overview", *Australian Journal of Public Administration*, Vol. 59, No. 4, December 2000, pp.100-108.
[55] *Ibid*.
[56] WA Public Sector Management, *Accountability in the Western Australian Public Sector*, [http://www.dpc.wa.gov.au/psmd/pubs/psrd/governance/accountb.pdf], WA, 1998.
[57] WA Public Sector Management, *Public Sector Management Act Review Report*, [http://www.dpc.wa.gov.au/psmd/pubs/exec/machgovt/kelly/summary.pdf], WA, 1997. Introduction.
[58] WA Treasury, *Financial Reform*, [http://www.treasury.wa.gov.au/default.asp], WA, 2003.

A requirement for agencies to report actual results against targets (for output measures) in their annual reports was introduced for the 1998-99 financial year.[59] All Agencies were required to disclose output measures of quantity, quality, timeliness and cost - comparing actual results with Budget targets in their annual report. A brief explanation of the reason for any significant variation between actual and target output production was also to be disclosed. Additionally, budget funded agencies were required to provide regular progress reports during the year against output performance targets.

The *Government Financial Responsibility Act*, passed in 2000, outlined a framework for comprehensive financial planning, targeting and reporting of public sector finances. The framework was designed to strengthen the financial accountability and transparency of government. It was also intended to provide an enduring basis for the prudent financial management of the resources, assets and services of the State for the benefit of current and future generations.

In year 2001, Geoff Gallop became the Premier of Western Australia. As he stated in the election policy *Delivering a Better Government*, the Labor government is committed to rebuilding and maintaining a strong state public sector.[60] The seven priorities of the Labor government are:

- Honest, accountable, and inclusive government,
- Sound financial management,
- A growing and diversified economy,
- Strong and vibrant regions,
- Safe, healthy, and supportive communities,
- An educated and skilled future for all Western Australians, and
- A valued, protected environment.

Among the seven priorities, accountability is identified as number one, and is being improved through the monthly *Government Achievements Reports*[61].

4. Key Elements

4.1 Legislative Commitment

Legislative commitment is a critical success factor of Australian public sector reforms over the past 20 years. Laws that support the reform initiatives are comprehensive at three folds:

- Laws were passed at both the federal level and the state level;
- Laws were passed in the fields of performance management, human resource management, and financial management; and

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[59] *Ibid.*
[60] Geoff Gallop, *Delivering a Better Government*, [http://www.premier.wa.gov.au/policies/public_sector_reform.pdf], WA Premier's Website, 2001.
[61] WA Premier's Website, *Government Achievements Reports*, [http://www.premier.wa.gov.au/main.cfm?MinId=01&Section=0072].

- Laws were amended according to the changing environments.

Legislative supports provide a legal framework for the Australian public sector reforms, which makes the reform not just one initiative of a government in power, but a national-wide and lasting initiative toward better performance and accountability.

4.2 Leadership

Leadership supports for Australian public sector reforms come from both the political perspective and the administrative perspective. All four Prime Ministers during the period covered in this report (Fraser: 1975-1983, Hawke: 1983-1991, Keating: 1991-1996, and Howard: 1996-Present) have put their efforts in public sector reforms toward better performance and accountability. Clear political leadership can also be found at the state level. For instance, during the election season in 2001, Mr. Geoff Gallop, who later became the Premier of Western Australia, put "honest, accountable and inclusive government" as his number one priority.

Leadership supports also come from the senior executives. Senior managers are responsible to the Parliament and public through their agreements with ministers. The *Senior Executive Leadership Capability Framework* not only established the core criteria for Senior Executive Service selection, but also made the administrative leadership support realistic in strategic thinking, achieving results, cultivating productive working relationships, exemplifying personal integrity, and communicating with influence.

4.3 Setting Objectives and Measuring Performance

The main and overall objectives of Australia's public sector reforms are to improve the performance and accountability of the Australian Public Sector and to provide better services to its citizens. The goal is to improve public sector productivity and efficiency by reallocating resources and putting them to more effective use rather than finding direct savings on budget. To achieve this goal, various reallocation agreements and regulations have been signed between the federal government and the states, between the finance department and other departments, and between the departments and agencies. For instance, New South Wales developed the *Service and Resource Allocation Agreements* in year 2000. Ministries, agencies, and employees are also required to develop clear objectives and goals.

Measurement and benchmarking of performance is another key element in the Australian public sector reforms. Departments and agencies at both the federal level and the state level put great efforts into developing measuring systems. The measures are of all types, both qualitative and quantitative, including inputs, workloads, outputs, service quality, and outcomes, but the emphasis is on the development of outcome measures. Two examples of clear measures are the *Managing for Outcomes Model* of Queensland and the *Output-Based Management* of Western Australia.

4.4 Performance-based Budgeting

The goal of Australia's public sector reforms is to achieve productivity and efficiency through effective resource reallocation rather than direct savings. The budget system is clearly aligned to this goal. Resource Agreements were signed, providing flexibility beyond what is normally available in the budget process, and serving as a complementary management tool to the budget process. Departments and Agencies are required to report the outcomes against the inputs, and this performance information is also used in the budget process. Legislative frameworks to ensure financial management and accountability have been established at both the federal level and the state level.

4.5 Performance-based Human Resource Management

The main focus of human resource management in the Australian public service is to improve staff performance by building better labour and management relationships, staff training, and performance-based payments.

Laws have been passed to ensure that the recruitment of public sector employees is based on merit and performance. Training has been provided to staff from all levels of the public sector. For instance, the *Middle Management Development Initiatives* during the early 1990s focused on those managers with substantial people management responsibilities, while the *Senior Executive Leadership Capability* improved the performance of senior managers and executives. The development of a performance-based pay system had been a key element of performance management ever since the early 1980s, before it finally became a special feature of the Australian public service. Unions have important roles in developing a better labour relationship in the public sector and in developing the performance-based pay system.

However, there is also an argument that a strong performance culture has not emerged within the Australian public service despite the introduction of performance-based pay. Michael O'Donnell argued that in the Australian public service, managerial prerogatives were used in an arbitrary and subjective manner, with favourites rewarded and others less favoured potentially victimised.[62] The proof of this is that those officers working in "high-profile" areas also received the highest rating, while senior officers working in "lower-profile" service areas, such as delivery services or corporate services, tended to receive merely "satisfactory" rating scores.[63] The author suggested that more focus should be placed on improving the quality of performance feedback provided by supervisors.

4.6 Performance Reporting and Reviewing

Annual reports, as the key performance reporting documents, are to provide information to enable Parliament to make fully informed judgements on departments and agencies. Since the mid-1990s, annual reports have also included performance

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[62] Michael O'Donnell, "Creating a Performance Culture? Performance-based Pay in the Australia Public Service", *Australian Journal of Public Administration*, Vol. 57, No. 2, June 1998, p. 34.
[63] *Ibid.*

information that was previously included in budget documents (known as performance statements). Annual reports are also required to focus on reporting on outcomes and to reduce the amount of activity-related information. The Australia National Audit Office (ANAO) has the overall responsibility for reviewing the reports; the Department of Finance is responsible for reviewing the budgeting and performance information. During the early 1990s, the Department of Finance commissioned two independent reviews, *Effective Reporting in Program Performance Statements*[64] in 1993 and *Performance Reporting in Commonwealth Annual Reports*[65] in 1995, both of which identified some problems with performance information.

One important feature of the Australian reviewing system is the role of the administrative review bodies. The Chief Justice of High Court, Sir Gerard Brennan, in 1998 stated,

> "Although more rigorous political control of the Executive Government is not to be expected and judicial supervision is limited to ensuring that executive action is lawful, the exercise of some administrative powers—notably those that affect individual interests—needs to be subject to external merits review."[66]

Sir Gerard encapsulated the need for accountability to be filled by administrative review bodies at the federal level of government. The Administrative Tribunal (AAT) and the Ombudsman are the two principal federal administrative review bodies[67]. The review bodies were established to enhance the accountability of executive ministers and officials to all of the Australian people for "micro-level" decision-making including policy that affects individual interests.

4.7 Building Performance Culture

After more than two decades of public sector reforms, the focus has shifted to an emphasis on outcomes rather than inputs or processes. Accountability has been emphasized by breaking down central control in finance and employment, establishing resource agreements, developing a performance-based pay system, and improving performance information. And, according to Warren McCann, the chief executive of the Department of the Premier and Cabinet of South Australia, although there was still room for improvement in the system, there was a firmly established performance culture in the

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[64] Sue Funnell, Australian Department of Finance, *Effective Reporting in Program Performance Statements*, Canberra, 1993.

[65] DGR Consulting and Australian Department of Finance, *Performance Reporting in Commonwealth Annual Reports*, Canberra, 1995.

[66] Gerard Brennan, *The Parliament, the Executive and the Courts: Role and Immunities*, cited in Alan Rose, "The Role of Administrative Review Bodies", Australian Journal of Public Administration, Vol. 58, No. 1, March 1999, p. 64.

[67] Other major review bodies are the Immigration Review Tribunal (IRT), the Refugee Review Tribunal (RRT), the Social Security Appeals Tribunal (SSAT), and the Veteran's Review Board (VRB).

public sector throughout Australia, and the basic notion itself—a public sector driven to perform—has become an integral part of everything.[68]

[68] Warren McCann, "Institution of Public Administration Australia: Some Observations About the Profession of Public Service", *Australian Journal of Public Administration*, Vol. 60, No. 2, June 2001, p. 111.

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Australian Attorney-General's Department, *Public Service Act 1999*, Act No. 147, [http://scaleplus.law.gov.au/cgi-bin/download.pl?/scale/data/comact/10/6059], Canberra, 1999.

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